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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Export-Import Bank's Financial Statements for Fiscal Years Ended September 30, 1984 and 1983

GAO examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1984 and 1983. The examinations were made in accordance with generally accepted government auditing standards.

The Bank's financial statements do not include an allowance for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the loans it has made. If such an allowance had been deducted, GAO estimates that the Bank's equity would have been decreased by \$1.0 to \$1.5 billion, eliminating substantially all of the \$1.4 billion in equity accumulated from the Bank's results of operations.

In GAO's opinion, the Bank's financial statements present a misleading picture of its financial position, results of operations, and changes in financial position in that they do not reflect the material losses likely to be sustained due to the uncollectibility of a portion of the Bank's loans.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-197710

To the President of the Senate and the
Speaker of the House of Representatives

This report transmits our opinion on the financial statements of the Export-Import Bank of the United States (Eximbank) for the years ended September 30, 1984 and 1983. We believe that Eximbank's financial statements are misleading in that they do not reflect the material losses likely to result from the uncollectibility of a portion of its loans. Appendix I is our report on Eximbank's system of internal accounting controls, and appendix II is our report on Eximbank's compliance with laws and regulations. The Comptroller General is required to audit the financial transactions of Eximbank under 31 U.S.C. 9105, and we conducted our examinations in accordance with generally accepted government auditing standards.

Eximbank is a wholly owned government corporation. Eximbank's purpose is to aid the U.S. exporting community in financing and facilitating exports of its goods and services.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Board of Directors of Eximbank.

Charles A. Bowsher
Comptroller General
of the United States

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

April 30, 1985

B-197710

To the Board of Directors
Export-Import Bank of the United States

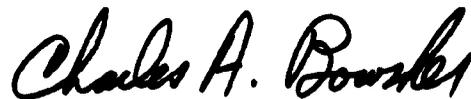
We have examined the statements of financial condition of the Export-Import Bank of the United States (Eximbank) as of September 30, 1984 and 1983, the related statements of income (loss) and reserve for contingencies and defaults, and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Eximbank's assets include a significant amount of loans that are in arrears, have had payment dates rescheduled, or are outstanding to countries experiencing financial difficulties. Eximbank reported net losses in its fiscal year 1984 and 1983 financial statements of \$343 and \$247 million, respectively. However, Eximbank's financial statements do not reflect the costs incurred for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the loans Eximbank has made. Eximbank has not developed an estimate of such an allowance for potential loan losses. If such an allowance for estimated loan losses had been deducted, we estimate that total assets and accumulated income since inception would each be decreased by \$1.0 to \$1.5 billion.¹ This would result in accumulated results of operations of between a \$400 million surplus and \$100 million deficit as of September 30, 1984, instead of the accumulated income of \$1.4 billion (Reserve for Contingencies and Defaults) as shown in the accompanying fiscal year 1984 financial statements.

¹GAO's estimate of the loan loss allowance of between \$1.0 and \$1.5 billion is based on several factors, including Eximbank staff's guidelines for categorizing loans for management purposes, the need for a loan loss reserve as reflected in the Allocated Transfer Risk Reserve requirements for federally chartered commercial banks promulgated by the Comptroller of the Currency (12 C.F.R. 20), and international debt and country risk assessments published by a variety of researchers. The lower boundary of GAO's estimate provides a 100 percent allowance for repudiated debt and other debt where repayment is considered remote. The upper boundary of the estimate includes an additional amount for loans to countries that are experiencing severe economic and debt repayment difficulties. Allowances for potential commercial loan losses were established using reserve factors traditionally applied by auditors and bank examiners.

Eximbank has also entered into insurance and guarantee commitments that will result in future claims losses. To date, payment of claims on insurance policies and guarantee commitments, and any later recoveries, have been accounted for on a cash basis.² Eximbank paid claims, net of recoveries, of \$119 million and \$20 million in 1984 and 1983, respectively. Generally accepted accounting principles require that insurance and guarantee losses should be accounted for on an accrual basis. As of the date of this opinion, the effect on the financial statements of claims, net of recoveries (either favorable or unfavorable) of this departure from the generally accepted treatment could not reasonably be determined.

In our opinion, because of the materiality of the effect of not reflecting the full cost of loan losses, the accompanying financial statements do not present fairly the financial position of Eximbank as of September 30, 1984 and 1983, or the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.



Comptroller General
of the United States

²See notes 1, 5, and 7 to Eximbank's financial statements for its discussion of insurance and guarantee accounting practices, and the related contingent liabilities.

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REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1984 and 1983, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1984. (Our report on internal accounting control for the year ended September 30, 1983, is presented in GAO/AFMD-84-48, 4/26/84.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditure cycle,
- financial reporting cycle,
- guarantee cycle,
- insurance cycle,
- loan cycle,
- payroll cycle, and
- treasury cycle.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over all functions within any of the categories because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on Eximbank's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of Eximbank is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the

risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Eximbank taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1984 and 1983 and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1984. (Our report on compliance with laws and regulations for the year ended September 30, 1983, is presented in GAO/AFMD-84/48, 4/26/84.)

In our opinion, Eximbank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that Eximbank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

EXPORT-IMPORT BANK OF THE UNITED STATES
COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	<u>September 30, 1984</u>	<u>September 30, 1983</u>
ASSETS		
Cash in U.S. Treasury and Commercial Banks	\$ 5,000,000	\$ 4,900,000
Investment in U.S. Securities	<u>27,100,000</u>	<u>111,500,000</u>
Loans Receivable (Notes 2, 3, 4, 5 and 6):		
Current Loans	14,796,900,000	14,978,500,000
Delinquent Loans	<u>2,706,900,000</u>	<u>1,904,100,000</u>
	<u>17,503,800,000</u>	<u>16,882,600,000</u>
Accrued Interest and Fees Receivable (Note 2):		
Current Interest and Fees	434,700,000	391,000,000
Delinquent Interest	<u>278,100,000</u>	<u>186,000,000</u>
	<u>712,800,000</u>	<u>577,000,000</u>
Other Assets:		
Repossessed Equipment (Note 7)	9,400,000	100,000,000
Due from Private Export Funding Corporation (Note 5)	107,000,000	79,800,000
Due from Foreign Credit Insurance Association	1,600,000	1,100,000
Other Receivables and Miscellaneous Assets	<u>46,000,000</u>	<u>11,300,000</u>
	<u>164,000,000</u>	<u>192,200,000</u>
	<u>\$18,412,700,000</u>	<u>\$17,768,200,000</u>
LIABILITIES, CAPITAL AND RESERVE		
Borrowings (Notes 7, 8, and 9):		
Notes Payable to Federal Financing Bank	\$15,689,800,000	\$14,675,900,000
Note Payable to Private Export Funding Corporation	15,300,000	30,600,000
Certificates of Beneficial Interest Payable	6,100,000	18,400,000
Notes Payable to U.S. Institutions	<u>12,400,000</u>	<u>15,400,000</u>
	<u>15,723,600,000</u>	<u>14,740,300,000</u>
Other Liabilities:		
Accrued Interest Payable	129,800,000	134,900,000
Advances from Private Export Funding Corporation	80,000,000	77,000,000
Other Credits	<u>29,500,000</u>	<u>23,600,000</u>
	<u>239,300,000</u>	<u>235,500,000</u>
Total Liabilities	15,962,900,000	14,975,800,000
Capital Stock Held by U.S. Treasury (Note 9)	1,000,000,000	1,000,000,000
Reserve for Contingencies and Defaults (Notes 2, 3, 5, 7 and 9)	<u>1,449,800,000</u>	<u>1,792,400,000</u>
	<u>\$18,412,700,000</u>	<u>\$17,768,200,000</u>

The accompanying notes are an integral part of these financial statements.

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF INCOME (LOSS) AND RESERVE FOR CONTINGENCIES AND DEFAULTS

	Fiscal Year Ended <u>September 30, 1984</u>	Fiscal Year Ended <u>September 30, 1983</u>
REVENUES		
Interest on Loans	\$1,457,800,000	\$1,341,500,000
Commitment Fees	23,000,000	33,200,000
Application Fees	23,000,000	7,500,000
Insurance Premiums and Guarantee Fees	33,200,000	34,600,000
Other Income	<u>19,900,000</u>	<u>6,900,000</u>
Total Revenues	<u>1,556,900,000</u>	<u>1,423,700,000</u>
EXPENSES		
Interest on U.S. Government Borrowings	1,740,800,000	1,616,800,000
Interest on Certificates of Beneficial Interest Borrowings	1,000,000	2,300,000
Interest on U.S. Institutional Borrowings	800,000	1,000,000
Interest on Private Export Funding Corporation Borrowing	3,000,000	4,300,000
Administrative Expenses	16,800,000	14,800,000
Claims Paid, net of recoveries (Note 7)	118,800,000	19,700,000
Other Expenses	<u>18,300,000</u>	<u>12,100,000</u>
Total Expenses	<u>1,899,500,000</u>	<u>1,671,000,000</u>
Net Loss (Note 9)	<u>\$ (342,600,000)</u>	<u>\$ (247,300,000)</u>
RESERVE FOR CONTINGENCIES AND DEFAULTS		
Beginning of Fiscal Year	\$1,792,400,000	\$2,039,700,000
Net Loss	<u>(342,600,000)</u>	<u>(247,300,000)</u>
End of Fiscal Year	<u>\$1,449,800,000</u>	<u>\$1,792,400,000</u>

The accompanying notes are an integral part of these financial statements.

EXPORT-IMPORT BANK OF THE UNITED STATES
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended <u>September 30, 1984</u>	Fiscal Year Ended <u>September 30, 1983</u>
FUNDS PROVIDED		
Net Loss	\$ (342,600,000)	\$ (247,300,000)
Borrowings from the Federal Financing Bank (Note 8)	2,584,000,000	2,225,000,000
Borrowings from U.S. Treasury (Note 8)	890,000,000	812,400,000
Repayments of Loans Receivable	1,678,200,000	2,173,600,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements	62,500,000	11,900,000
Loans Receivable Written Off, Net of Recoveries (Note 7)	(20,500,000)	5,400,000
Sales of Certificates of Beneficial Interest	2,600,000	-0-
Accrued Interest Payable	(5,100,000)	5,500,000
Sale of Repossessed Equipment (Note 7)	90,500,000	-0-
Other - Net	<u>(30,100,000)</u>	<u>(7,200,000)</u>
Total Funds Provided	<u>4,909,500,000</u>	<u>4,979,300,000</u>
FUNDS APPLIED		
Loan Disbursements	1,918,700,000	2,388,100,000
Loans Purchased Pursuant to Guarantee and Insurance Agreements	422,800,000	120,000,000
Investment in U.S. Securities	(84,400,000)	111,500,000
Accrued Interest and Fees Receivable	129,600,000	41,600,000
Repayments of Federal Financing Bank Borrowings	1,570,000,000	1,503,100,000
Repayments of U.S. Treasury Borrowings	890,000,000	816,800,000
Repayments of Private Export Funding Corporation Borrowing	15,300,000	12,200,000
Repayments of U.S. Institutional Borrowings	3,100,000	39,900,000
Redemptions of Certificates of Beneficial Interest	14,900,000	20,100,000
Loan Disbursements for Private Export Funding Corporation-Net (Note 5)	<u>29,400,000</u>	<u>(78,400,000)</u>
Total Funds Applied	<u>4,909,400,000</u>	<u>4,974,900,000</u>
NET INCREASE (DECREASE) IN FUNDS DURING THE PERIOD		
Cash - Net	<u>\$ 100,000</u>	<u>\$ 4,400,000</u>

The accompanying notes are an integral part of these financial statements.

EXPORT-IMPORT BANK OF THE UNITED STATES
Notes to Financial Statements

Note 1: Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency of the United States. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through November 30, 1983, and the Government Corporation Control Act.

Eximbank's accounting records are maintained on an accrual basis with the exception of write-offs of loans and payment of claims on guarantees and insurance policies. Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectable. Interest on delinquent loans receivable is accrued until such time as Eximbank determines on a case-by-case basis that a particular delinquent loan should be nonaccruing. Claims, except for purchases of assets (see footnote 4), are charged to income in the year paid. Later recoveries of amounts written off or of amounts which have been paid as claims are treated as income in the year received. The Eximbank employees are covered by the Civil Service Retirement and Disability Fund. Consequently, Eximbank has the responsibility for withholding 7 percent of each employee's salary and for contributing a matching amount to the fund. The figures in the financial statements are rounded to the nearest one hundred thousand dollars.

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure is limited to \$40 billion outstanding at any one time. Loans are charged against the \$40 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the \$40 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the proviso that the aggregate amount of guarantees and insurance so charged may not exceed \$25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach \$58.75 billion, consisting of \$25 billion of guarantees and insurance outstanding, resulting in a \$6.25 billion charge against the \$40 billion limitation, and \$33.75 billion (additional commitments) charged at 100 percent against the limitation.

At September 30, 1984, the committed and uncommitted authority to lend, guarantee, and insure was:

(\$ Millions)		Charge
Category		
Loans		\$22,983.4
Guarantees	\$ 6,599.9	
Insurance	8,662.7	
	\$15,262.6 @ 25%	3,815.6
Committed		26,799.0
Uncommitted		13,201.0
Total Statutory Authority		<u>\$40,000.0</u>

Note 2: Delinquent Loans

Loans with any installments of principal or interest past due 90 days or more are classified as delinquent on the Statement of Financial Condition. The outstanding principal amount of delinquent loans is summarized on a comparative basis (see table below).

The delinquent loans to China were made in 1946 to the then recognized government of China. The delinquent loans to Cuba were made between 1951 and 1958, when a prior government existed.

Country	Total Outstanding Principal	Delinquent Installments September 30, 1984 (\$ thousands)			Delinquent Installments September 30, 1983 (\$ thousands)		
		Principal	Interest	Total	Principal	Interest	Total
Antigua	\$ 750.0	\$ 750.0	\$ 1,086.9	\$ 1,836.9	\$ 750.0	\$ 1,062.7	\$ 1,812.7
Argentina	266,268.9	35,760.4	17,119.1	52,879.5	8,627.4	2,442.1	11,069.5
Bolivia	30,711.3	5,579.7	2,306.7	7,886.4	1,582.2	815.5	2,397.7
Brazil	961,875.0	145,177.2	61,922.6	207,099.8	27,577.1	7,730.8	35,307.9
Cameroon	6,832.8	1,024.9	884.6	1,909.5	344.3	290.1	634.4
China	26,386.0	26,386.0	28,171.6*	54,557.6	26,386.0	27,311.2*	53,697.2
Costa Rica	16,674.6	1,496.0	1,510.9	3,006.9	4,162.1	2,050.2	6,212.3
Cuba	36,266.6	36,266.6	48,893.2	85,159.8	36,266.6	46,898.3	83,164.9
Dominican Rep.	57,099.0	7,267.4	5,940.8	13,208.2	4,657.0	2,272.2	6,929.2
Guatemala	5,513.6	1,835.0	136.4	1,971.4	983.2	265.1	1,248.3
Guyana	2,500.0	1,000.0	555.8	1,555.8	500.0	336.4	836.4
Haiti	13,417.7	1,134.2	-0-	1,134.2	652.5	255.5	908.0
Indonesia	248,719.5	1,715.2	-0-	1,715.2	-0-	-0-	-0-
Ivory Coast	58,936.8	4,568.8	1,718.3	6,287.1	-0-	-0-	-0-
Jamaica	36,775.5	10,345.5	2,922.3	13,267.8	1,100.8	488.6	1,589.4
Mauritania	4,741.7	3,334.0	1,372.3	4,706.3	2,630.1	1,523.2	4,153.3
Mexico	102,591.0	11,515.7	3,895.4	15,411.1	6,190.4	1,928.6	8,119.0
Mozambique	16,300.3	2,922.5	1,277.1	4,199.6	371.6	152.8	524.4
Nicaragua	19,914.4	13,645.6	5,138.1	18,783.7	12,270.6	4,951.4	17,222.0
Peru	15,691.2	434.2	765.9	1,200.1	230.3	142.1	372.4
Poland	241,961.8	119,546.6	48,557.5	168,104.1	69,942.1	30,701.8	100,643.9
Sudan	19,768.1	1,400.0	949.4	2,349.4	2,813.3	2,936.3	5,749.6
Tanzania	13,723.6	260.8	801.1	1,061.9	14.5	1,167.3	1,181.8
Venezuela	23,503.4	7,963.8	1,681.9	9,645.7	7,650.5	871.9	8,522.4
Yugoslavia	409,147.1	67,217.7	9,618.6	76,836.3	41,770.2	244.1	42,014.3
Zambia	23,625.4	3,383.9	470.1	3,854.0	5,971.9	1,951.5	7,923.4
Other	47,224.0	2,328.1	1,326.1	3,654.2	120,600.1	53,752.2	174,352.3
Total	\$ 2,706,919.3	\$514,259.8	\$249,022.7	\$763,282.5	\$384,044.8	\$192,541.9	\$576,586.7

The countries listed above are not necessarily the obligor of the delinquent loans. Some of the loans are to private parties in those countries.

* Eximbank actually ceased to accrue interest on its books in 1960. At that time, interest amounted to \$9,325,442.59.

Note 3: Rescheduled Loans

From time to time Eximbank must extend the repayment date of some or all principal installments of a loan to a new schedule because the obligor or country has encountered temporary financial difficulty and the Directors of Eximbank have determined that providing relief in this manner will aid collectability and enable the obligor ultimately to service the debt.

The previously rescheduled loans which are included in "Current Loans" in the Statement of Financial Condition total \$1,216.3 million at September 30, 1984 and \$442.1 million at September 30, 1983. Previously rescheduled loans with an aggregate outstanding principal balance of \$329.6 million have principal and interest installments amounting to \$209.2 million which are 90 days or more past due. These loans are included in the delinquent classification on the Statement of Financial Condition. In FY 1984, Eximbank rescheduled principal and interest installments totaling \$383.4 million. The outstanding principal balance under the FY 1984 reschedulings is \$686.9 million.

Some reschedulings include capitalized interest, which has been previously credited to the Reserve for Contingencies and Defaults. At September 30, 1984, the Reserve of \$1,449.8 million includes \$267.6 million of such outstanding capitalized interest of which \$84.2 million is 90 days or more past due. The Reserve also includes past due interest on delinquent loans totaling \$278.1 million.

Note 4: Loans Purchased Pursuant to Eximbank Guarantee Agreements

Claim payments under Eximbank's medium- and short-term guarantee and insurance programs are treated as purchases of assets and recorded as loans receivable when, in the opinion of the Board, the prospects of repayment and other factors, including materiality and country-wide debt consolidation considerations, justify such treatment.

The \$17,503.8 million of loans receivable at September 30, 1984 includes \$756.9 million of purchased loans and the \$16,882.6 million at September 30, 1983 includes \$396.7 million. As of September 30, 1984, delinquent loan purchases totaled \$16.7 million. At September 30, 1984, cumulative purchases of loan installments totaled \$875.6 million and cumulative repayments totaled \$118.7 million.

Loan purchases as of FY 1984, and FY 1983 are summarized in the table below. Repayments in FY 1984 totaled \$62.5 million and \$11.9 million in FY 1983.

<u>Country</u>	(\$ Thousands)	
	FY 1984	FY 1983
	<u>Loan Purchases</u>	<u>Loan Purchases</u>
Argentina	\$ 5,773.2	\$ 1,480.2
Brazil	72,871.9	6,584.6
Costa Rica	(1,374.3)	2,789.7
Ecuador	1,464.8	1,012.9
Guinea	123.0	-0-
Honduras	-0-	739.4
Ivory Coast	2,956.3	-0-
Jamaica	3,209.4	-0-
Madagascar	3,265.7	-0-
Mexico	187,154.0	74,553.6
Morocco	9,083.9	-0-
Nicaragua	-0-	1,069.1
Peru	2,556.0	414.7
Senegal	-0-	678.3
Sudan	1,573.1	447.7
Turkey	(51.1)	5,632.6
Yugoslavia	3.6	6.5
Zaire	76,318.3	23,240.5
Zambia	8,825.9	1,385.0
Total	<u>\$373,753.7</u>	<u>\$120,034.8</u>

Note 5: Commitments and Contingent Liabilities

Eximbank's worldwide commitments, shown below, include contingent liabilities totaling \$15,262.6 million at September 30, 1984, and \$14,523.6 million at September 30, 1983.

	(\$ Millions)	
	<u>FY 1984</u>	<u>FY 1983</u>
Outstanding Loans	\$17,503.7	\$16,882.6
Undisbursed Loans	5,479.6	6,829.2
Guarantees Contingent Liability	6,599.9	6,675.2
FCIA Insurance Contingent Liability	8,662.7	7,848.4
Total	<u>\$38,245.9</u>	<u>\$38,235.4</u>

In FY 1980, Eximbank and the Private Export Funding Corporation (PEFCO) agreed to share in providing a total of \$1,350.0 million of U.S. export financing for 16 export credits at current fixed rates of interest quoted by Eximbank to foreign borrowers. Eximbank's share of the total is \$251 million and PEFCO's share is \$1,099.0 million. Under the arrangement, Eximbank will meet any shortfall or retain any excess between the borrowers' interest payments and PEFCO's interest charges.

During FY 1984 disbursements totaling \$175.1 million were made in connection with credits under the arrangement. PEFCO's share of the total is \$144.4 million and Eximbank's is \$30.7 million. To reimburse Eximbank for the disbursements made for their account, PEFCO borrowed and transferred \$103.9 million to Eximbank in January 1984.

In accordance with the arrangement, the interest rate charged by PEFCO on their share of the disbursements was determined by their borrowing cost at the time of borrowing and for this \$103.9 million was 12.2 percent. The weighted average interest rate to the foreign borrowers on the \$103.9 million of disbursements is 8.659 percent. The weighted average cost of Eximbank's borrowings from the FFB during the quarter at the time of the reimbursement was 11.486 percent.

Eximbank issues export credit insurance in cooperation with the Foreign Credit Insurance Association (FCIA). Prior to October 1, 1983, Eximbank insured the defined political risks under the policies and FCIA insured the commercial risk of default up to certain specified stop-loss amounts, with Exim reinsuring losses above such amounts. Beginning October 1, 1983, Eximbank and FCIA entered into a new contractual agreement under which Eximbank reinsured all of the commercial risks in addition to insuring political risks, agreed to cover any operation expenses in excess of premiums, and became a majority on the FCIA Board of Directors.

Note 6: Maturity Schedule of Outstanding Loans Receivable:

As of September 30, 1984, about 67.1 percent of the outstanding loans receivable balance of \$17,503.8 million is projected to be due over the next five years and the remaining 32.9 percent is estimated to be due thereafter, as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>	<u>Percent of Total</u>
1985	\$ 2,300.6	13.1%
1986	2,352.7	13.4
1987	2,294.2	13.1
1988	2,010.9	11.5
1989	2,793.5	16.0
	<u>11,751.9</u>	<u>67.1</u>
1990-2006	5,751.9	32.9
	<u>\$17,503.8</u>	<u>100.0%</u>

In addition to the \$17,503.8 million of outstanding loans there are undisbursed loans totaling \$5,479.6 million most of which are expected to be disbursed over the next 3-5 years.

Note 7: Losses, Claims and Reserve for Contingencies and Defaults

In February 1982, Laker Airways Limited (Laker) declared bankruptcy. At that date, Eximbank's total outstanding exposure on loans to Laker for five DC-10-30 aircraft totaled \$147.2 million (an \$86.0 million Eximbank direct loan and a \$61.2 million guaranteed loan made by the Private Export Funding Corporation (PEFCO)).

The Eximbank exposure was secured by chattel mortgages on the five DC-10-30 aircraft. Eximbank took possession of the aircraft. Under the terms of its guarantee, the Bank paid PEFCO \$15.7 million (\$12.2 million principal and \$3.5 million interest) for delinquent installments. PEFCO requested acceleration of the debt under the terms of its loan and guarantee agreements. In lieu of paying PEFCO immediately for future installments under the loan, Eximbank gave PEFCO a promissory note for \$48.9 million at the same 11 percent rate with the same installment dates as carried by PEFCO's loan to Laker.

For FY 1982, the Board of Directors approved a \$50 million writedown of the asset, based on the approximate market value of the aircraft at the end of 1982. The writedown was applied proportionately between the Eximbank loan and the guarantee (\$29.2 million to the loan and \$20.8 million to the guarantee) reducing the value of the asset on Eximbank's books.

In FY 1984 the five aircraft were sold for a total of \$125 million. The sale of the aircraft resulted in a gain of \$35 million over the book value. The gain was applied proportionately between the Eximbank loan and guarantee to offset a portion of the writeoff (\$20.4 million to the loan and \$14.6 million to the guarantee).

Losses, claim payments and recoveries for FY 1984 and FY 1983 are:

	(\$ Thousands)	
	<u>FY 1984</u>	<u>FY 1983</u>
Loans written off	\$ -0-	\$ 5,421.0
Loan recoveries	(20,482.5)	(15.1)
Guarantee claims paid	47,840.4	17,998.4
Guarantee recoveries	(27,066.2)	(13,093.9)
Insurance claims paid	129,349.5	80,264.5
Insurance recoveries	<u>(10,864.3)</u>	<u>(70,914.3)</u>
Claims Paid, net of recoveries	<u>\$118,776.9</u>	<u>\$19,660.6</u>

The risk to Eximbank from potential losses and claims is not susceptible to accurate measurement because of the unpredictable nature of future worldwide economic and political conditions. Eximbank's entire Reserve is available to cover such losses, claims and contingencies. Eximbank has a Reserve for Contingencies and Defaults of \$1,449.8 million which is 8.3 percent of outstanding loans and 3.8 percent of world commitments. This Reserve, coupled with Eximbank's \$1.0 billion Capital, amounts to 14.0 percent of outstanding loans and 6.4 percent of world commitments. Included in the reserve is accumulated income from delinquent interest and delinquent capitalized interest of \$362.2 million at September 30, 1984 and \$316.6 million at September 30, 1983.

Note 8: Borrowings from the U.S. Treasury and the Federal Financing Bank

Eximbank does not receive any appropriated funds. It has authority, under its Act, to borrow directly from the U.S. Treasury and to have outstanding at any one time up to \$6 billion of such borrowings. Eximbank avails itself of this authority for its short-term needs on a daily basis at a 91-day Treasury bill rate. Excess cash is used to reduce these borrowings on a daily basis. The average rate for such short-term borrowings, for the quarter ending September 30, 1984, was 9.71 percent.

Since May 1975, Eximbank has borrowed from the Federal Financing Bank (FFB) for its medium- and long-term needs. During the period ending September 30, 1984, Eximbank borrowed the following from the FFB:

Date	Amount (\$ Millions)	Rate	Final Maturity
12/01/83	\$ 387.0	11.539%	12/01/93
12/01/83	113.0	11.303	12/01/93
3/01/84	390.0	11.985	3/01/94
3/01/84	508.0	11.720	3/01/94
6/01/84	383.0	13.797	6/01/94
6/01/84	267.0	13.592	6/01/94
9/01/84	410.0	12.713	9/01/94
9/01/84	126.0	12.680	9/01/94

As Eximbank is usually a net borrower of funds, net short-term borrowings from the U.S. Treasury are repaid quarterly by borrowing from the FFB on a medium- and long-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

Note 9: United States Government Investment in Eximbank

The investment of the U.S. Government in Eximbank consists of the following:

	September 30, 1984 (\$ millions)	September 30, 1983 (\$ millions)
Capital stock held by U.S. Treasury	\$ 1,000.0	\$ 1,000.0
Reserve for Contingencies and Defaults	1,449.8	1,792.4
Notes Payable to Federal Financing Bank	15,689.8	14,675.9
Total	<u>\$18,139.6</u>	<u>\$17,468.3</u>

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